

Financial Strategy 2022/23

Overview

1. The Financial Strategy supports the delivery of other council strategies, such as the Strategic Plan and the Capital & Investment Strategy. It links the council's more detailed service plans, asset management plans and capital plans with the longer term to show that the council's plans are financially achievable.
2. This budget is underpinned by a financial strategy to ensure the financial sustainability of the Council, deliver essential services to residents and achieve our vision making Oxfordshire a greener, fairer and healthier county, within a limited amount of resource. This will be achieved by focusing on continuous improvement, managing demand, driving through efficiencies and increasing income generation.
3. In order to continue to deliver for our residents and thrive in the longer term, financial sustainability and resilience is essential. This requires successful delivery of three critical elements which reflect the financial planning principles for the budget and medium-term strategy:
 - Managing the impact of rising need, caused by population growth and increased complexity, for adult and children's social care through demand management approaches, more effective pathways and delivering better value for money.
 - Responding to the medium to long term impact of the COVID-19 pandemic on our ways of working, workforce, residents and economy.
 - Only using one-off resources for temporary purposes.

Medium Term Funding Context

4. The Provisional Local Government Finance Settlement announced on 16 December 2021 confirmed a one-year settlement for 2022/23 only. The consultation document stated that 'the proposals relate to 2022/23 and are focused on stability. The government is committed to ensuring that funding allocations for councils are based on an up-to-date assessment of their needs and resources. The data used to assess this has not been updated in a number of years. Over the coming months, we will work closely with the sector and other stakeholders to update this and to look at the challenges and opportunities facing the sector before consulting on any potential changes'.
5. The expectation therefore is that local government funding reforms will be introduced in 2023/24. Alongside this, it is expected that the Business Rate baseline reset, which would result in the loss of business rate growth accumulated since 2013/14, will also be implemented in 2023/24.

6. As the impact of funding reforms are unknown, it is very difficult to predict the level of government funding available for 2023/24 and beyond. However, a prudent approach has been assumed. The following assumptions have been made:
 - a. The new funding formula provides resources equivalent to the Settlement Funding Assessment level in 2019/20 when the originally planned Negative RSG was due to be implemented
 - b. The Council loses all of the growth in Business Rates retained since 2013/14
7. The impact of the two points above is a reduction in resources of £10.0m compared to 2021/23.
8. In his speech, Michael Gove, Secretary of State for Levelling Up, Housing and Communities stated that 'as part of [any funding reforms] we will look at options to support local authorities through transitional protection'. On this basis, the proposed Medium Term Financial Strategy (MTFS) assumes that the possible reduction in funding is spread equally across 2023/24 and 2024/25.
9. Despite the Covid-19 pandemic, taxbase growth has remained strong in 2021/22 and 2022/23 at 1.5% and 1.75% increases respectively. Future growth is assumed in the proposed MTFS at 1.75% per year which provides additional annual increases in funding of c£7.5m. Maximum council tax increases are also proposed for each year of the MTFS.
10. Taking into account the potential impact of funding reforms and council tax assumptions, the proposed MTFS has a budgeted shortfall of £5.4m in 2023/24 rising to £7.6m in 2024/25 and £9.1m in 2025/26. These shortfalls will need to be addressed but the position will be reviewed once more information becomes available on the potential impact of funding reforms. However, to ensure a balanced budget is set each year as well as responding to emerging needs and priorities, the council will continue to focus on service redesign, commercialism, effective contract management and working with partners to secure value for money in delivering our Strategic Plan priorities.
11. The MTFS includes a contingency budget of £6.6m¹ in 2022/23. If this is not used on an on-going basis in 2022/23, some could be available in 2023/24 to provide some cover should the funding reforms adversely impact on the Council's funding beyond the assumptions already made.

Dedicated Schools Grant (DSG) High Needs Reserve

12. As set out in the Earmarked Reserves and General Balances Policy Statement (Section 4.6) it is expected that the deficit on the Dedicated Schools Grant (DSG) High Needs Reserve will increase over the medium term and could reach a deficit balance of £137.4m by the end of the MTFS period. This is a common position for authorities with responsibility for schools. The School and Early Years Finance (England)

¹ After assuming use of £3.4m contingency for an unbudgeted pay award of 1.75% in 2021/22 and permanent virements of £0.6m in 2021/22.

Regulations 2020 stipulate that a deficit on the DSG must be carried forward to be funded from future DSG income unless permission is sought from the Secretary of State for Education to fund the deficit from general resources. However, the DfE has not brought forward a plan to bring levels of funding for High Needs provision up to sustainable levels and a white paper on SEND reforms has been postponed several times and is now expected in 2022. Irrespective of this, it is imperative that the council continues to develop and implement its reforms for High Needs to bring expenditure more in line with grant allocations.

13. The regulations which require the negative balance to be held in an unusable reserve come to an end on 1 April 2023. If a solution is not found or extension of the regulations is not granted the balance on the reserve will transfer back to the Council's total Earmarked Reserves. If this happens, it materially impacts on the overall level of reserves and by 2025/26, the Council would be in a position where its total earmarked reserves were negative, and the financial standing of the council put at risk. In this scenario, the council would need to take action to address the position. However, the risk associated with this is considered low and the expectations are that extension of the regulations will be granted. Therefore, the position does not currently impact on decisions over the medium term.

Long Term Funding Context

14. Long term planning is particularly challenging in the current environment. However, in planning for the long term, it remains important to understand both the context of Oxfordshire as well as the main drivers of change. In this context, we need to ensure that the most fundamental issues facing the organisation which have been identified are responded to. Longer term planning needs to account for alternative possible future economic and political environments.
15. The Capital & Investment Strategy sets out the long-term context in which capital expenditure and investment decisions are made to advance the achievement of priority outcomes. This strategy effectively becomes the long-term plan.
16. The capital programme is a ten-year programme which offers strategic choice and options around developing our community assets, responding to the fundamental issues of rising demand in adults and children's services, allowing for a planned approach to replacement of assets and delivering on climate action priorities.

Measuring Financial Performance

17. Measuring the Council's financial health through a set of targeted measures is a key way of measuring our financial health and resilience in supporting the Council's plans and priorities. The key indicators upon which we will measure ourselves are set out in Annex 1 below.
18. CIPFA's Financial Resilience Index is designed to support and improve discussions surrounding local authority financial resilience. It shows a council's performance against a range of measures associated with financial risk, including the level of earmarked reserves and general balances. The Index is a comparative tool to be used

to support good financial management and generate a common understanding of the financial position within authorities.

19. The index considers both the value of general balances and earmarked reserves compared to councils' net revenue budget. While earmarked reserves are held for specific purposes, they can be called upon to meet unexpected costs or provide short term funding to enable long term recovery plans to be put in place.
20. The publication of the Financial Resilience Index based on 2020/21 data is due in early January 2022. Due to the timing of publication, this will be considered as part of the Chief Financial Officer's Section 25 statement for Council on the adequacy of the proposed financial reserves and the robustness of the estimates for the purposes of the council tax calculations.

Financial Management

21. Financial indicators alone do not give a complete picture of financial health and sustainability; strengths of financial management and governance are also an essential foundation of any successful organisation.
22. The Code of Practice for Financial Management (the FM Code) was introduced by CIPFA in November 2019. on behalf of the Ministry of Housing, Communities and Local Government (MHCLG) in the context of increasing concerns about the financial resilience and sustainability of local authorities. The FM code is not statutory but compliance with the code is obligatory. It brings together elements that are already part of existing statutory guidance:
 - Role of the Chief Financial Officer in Local Government (S151 Officer)
 - Prudential Code for Capital Finance
 - Code of Practice on Local Authority Accounting in the United Kingdom
23. The FM Code, which includes 19 standards, clarifies how Chief Finance Officers should satisfy their statutory responsibility for good financial administration as required in section 151 of the Local Government Act 1972. Importantly it emphasises the collective financial responsibility of the leadership team, including the relevant elected members, of which the Chief Finance Officer is one member.
24. The first full year of compliance with the FM Code is 2021/22. However, in recognition of the pressures that have been placed on local authorities in dealing with the COVID-19 pandemic and impact on the medium term financial position, CIPFA concluded that the first year of compliance can be within a more flexible framework where a proportionate approach is encouraged.
25. It is for the individual authority to determine whether it meets the standards and to make any changes that may be required to ensure compliance. Authorities should be able to provide evidence that they have reviewed their financial management arrangements against the standards and that they have taken such action as may be necessary to comply with them.

26. An assessment has been made of the Council's current compliance with the FM Code. The assessment has identified that the Council is well placed to evidence compliance from 1 April 2022. All 19 Standards have been assessed as Green meaning that compliance can be evidenced. Where relevant, proposed further actions that can be taken to enhance compliance have been included in the assessment. The assessment will also be used to help inform the Council's Annual Governance Statement (AGS) which will be published alongside the Statement of Accounts. The Summary Assessment is included at Annex 2.

Key Performance Indicators

The Financial Strategy enables the Authority to undertake Budget Planning for the short, medium and longer term, and to make sound decision on the commitment of financial resources whilst ensuring strong financial resilience. As such the Financial Strategy supports the Corporate Plan, and a budget planning process that can ensure finances are allocated to support the delivery of all the council's key priorities.

The Financial Strategy directly supports the council's priorities. There are two key strategic indicators (SI*) that demonstrate the effectiveness of the Financial Strategy:

1. The Council is financially resilient
2. The Council has good financial management and governance

The following set out the performance activity and measures for monitoring these indicators, the frequency of monitoring and where they are reported to. The key measures are reported publicly through Cabinet and Performance & Corporate Services Overview & Scrutiny Committee as part of the monthly Business Management Reporting (BMR), others are monitored within the Finance Service and reported by exception or are routinely reported to the Audit and Governance Committee.

SI*	Measure	2022/23 Target	Reporting Frequency	Reported to:
Delivering to budget and achieving savings:				
1	Overall forecast revenue variance across the Council	Break even or underspend	Monthly (BMR)	Cabinet
1	Achievement of Planned savings 21/22	95%	Monthly (BMR)	Cabinet
2	Directorates deliver services and achieved planned performance within budget	=< 1% revenue budget variation (with service outcomes achieved)	Monthly (BMR)	Cabinet
Ability to manage unplanned/unforeseen events:				
1	General Balances are forecast to remain at or above the risk assessed level.	=> the risk assessed level	Monthly (BMR)	Cabinet

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Use of Grants				
2	Total Outturn variation for Dedicated Schools Grant (DSG) funded services (schools and early years)	Break even or underspend	Monthly (BMR)	Cabinet
2	Use of non-DSG revenue grant funding	=>95% of grant funding is spent in year	Monthly (BMR)	Cabinet
Capital Programme				
1	% of total forecast capital spend compared to budget	To be updated following review of Capital Programme reporting February 2022	Quarterly (Capital Programme Monitoring Report)	Cabinet
2	Capital schemes are delivered to planned performance within budget	To be updated following review of Capital Programme reporting February 2022	Quarterly (Capital Programme Monitoring Report)	Cabinet
Systems and processes operate effectively and are well controlled to reduce and detect error and fraud:				
2	Positive assurance from External Audit	Zero material issues identified by External Audit	Quarterly and Annual Report (September)	Audit & Governance Committee
2	Annual report of the Chief Internal Auditor (CIA)	Positive assurance by the CIA	Annually (May)	Audit & Governance Committee
2	Positive assurance following Internal Audits of Financial Systems and processes	90% audits of financial systems are rated Green or Amber	Quarterly	Audit & Governance Committee
2	Internal Audit actions for financial systems implemented within agreed timescales	90% of priority 1 and 2 audit actions implemented within the originally agreed timescale	Quarterly	Audit & Governance Committee
2	% of agreed invoices paid within 30 days	>95%	Monthly (BMR)	Cabinet
Compliance with the CIPFA Financial Management Code of Practice				
2	annual self-assessment of compliance to the CIPFA FM standards	100% compliance	Annually (January)	Cabinet / Audit & Governance Committee

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Debt Management				
2	Invoice Collection Rate – Corporate Debtors	95%	Monthly (BMR)	Cabinet
2	Invoice Collection Rate – ASC contribution debtors	92%	Monthly (BMR)	Cabinet
2	Debt Requiring Impairment – Corporate Debtors	<£0.300M	Monthly (BMR)	Cabinet
2	Debt Requiring Impairment – ASC contribution debtors	<£2.5M	Monthly (BMR)	Cabinet
Treasury Management				
2	Average cash balance compared to forecast average cash balance	<10% +/- variation	Quarterly (Quarterly Treasury Management Report)	Cabinet / Audit & Governance Committee
2	Average interest rate achieved on in-house investment portfolio	>=0.15%	Quarterly (Quarterly Treasury Management Report)	Cabinet / Audit & Governance Committee
2	Average Annualised Return achieved for externally managed funds	>=3.75%	Quarterly (Quarterly Treasury Management Report)	Cabinet / Audit & Governance Committee

Financial Management Code of Practice – Summary Compliance Assessment 2021/22

Ref	CIPFA Financial Management Standards	Current Status	Further Work	RAG Status
1. Responsibilities of the Chief Finance Officer (CFO) and Leadership Team				
A	The leadership team is able to demonstrate that the services provided by the authority provide value for money (VfM)	Services use benchmarking to inform opportunities to improve VfM. This is evidenced by the use of benchmarking to inform the changes agreed through the Property Services Transformation, for example. Procurement decisions consider VfM by considering the quality of service and not just price.	Consider the development of processes for evidencing benchmarking across services in a more systematic way.	GREEN
B	The authority complies with the CIPFA “Statement of the Role of the CFO in Local Government”	The CFO is qualified accountant with significant experience working as an active member of the council’s leadership team. The CFO is a member of CEDR (Chief Executive Direct Reports) and has an influential role with members of the Cabinet, Audit & Governance Committee and lead opposition members.		GREEN
2. Governance and Financial Management Style				
C	The Leadership Team demonstrates in its actions and behaviours responsibility for governance and internal control	The Corporate Governance and Assurance Group (CGAG) exists to ensure good governance and internal control, including driving the production of the Annual Governance Statement (AGS) and Action Plan through the completion of Professional Lead Statements and engagement with Corporate Directors.		GREEN

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Ref	CIPFA Financial Management Standards	Current Status	Further Work	RAG Status
D	The authority applies the CIPFA/SOLACE “Delivering Good Governance in Local Government: Framework (2016)”	<p>Annual Governance Statement (AGS) includes internal audit opinion on effectiveness of internal control environment and systems of internal control.</p> <p>The updated Local Code of Governance is included as part of the agenda for Audit & Governance Committee in January 2022.</p>		GREEN
E	The Financial Management style of the authority supports financial sustainability	The Council has adopted a Business Partnering model that supports managers to deliver financially sustainable services by providing strategic advice and support. This is underpinned by a Corporate Function that manages the strategic financing issues and provides the budget setting and accounting framework for the organisation.	Further develop the Business Management & Monitoring Report to improve visibility and links between performance, risk and finance reporting and highlight key issues that need to be considered.	GREEN
3. Long to Medium-Term Financial Management				
F	The authority has carried out a credible and transparent financial resilience assessment	<p>Financial resilience is considered as part of the Leadership Risk Register.</p> <p>The forecast level of General Balances is reported against the minimum risk assessed level for balances monthly taking into account the latest monitoring position in the current year.</p>		GREEN
G	The authority understands its prospects for financial sustainability in the longer term and has reported this clearly to members	The Financial Strategy and MTFS outline the financial challenges and opportunities facing the Council over the medium term. Business and Budget Planning Reports to Cabinet clearly set out the financial planning environment, risks and any assumptions made.		GREEN

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Ref	CIPFA Financial Management Standards	Current Status	Further Work	RAG Status
H	The authority complies with the CIPFA “Prudential Code for Capital Finance in Local Authorities”	An annual Capital and Investment Strategy is set by Council alongside a ten-year Capital Programme, Treasury Management Strategy, Annual Investment Strategy and Minimum Revenue Provision Policy. The Capital Programme is monitored monthly with reports produced quarterly for CEDR and Cabinet. Mid-term and Outturn Treasury Management reports are taken to Audit & Governance Committee, Cabinet and Council, including monitoring of Prudential Indicators.		GREEN
I	The authority has a rolling multi-year medium-term financial plan consistent with sustainable service plans	The Council has an integrated Business and Budget Planning Process with a multi-year MTFS linked to service plans and performance reporting through the Business Management & Monitoring Report.	Continue to build the link between service plans and budgets and further improve the linkages between service performance and financial outcomes through enhancements to the Business Management & Monitoring Report.	GREEN
4. The Annual Budget				
J	The authority complies with its statutory obligations in respect of the budget setting process	The Council produces an annual balanced budget and supporting documentation within the necessary timeframe.		GREEN
K	The budget report includes a statement by the CFO on the robustness of the estimates and a statement on the adequacy of the proposed financial reserves	The CFO’s Section 25 report accompanies the suite of Budget documents and includes a commentary on the adequacy of proposed financial reserves with reference to CIPFA’s Resilience Index as well as assessed compliance with the FM Code.		GREEN

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Ref	CIPFA Financial Management Standards	Current Status	Further Work	RAG Status
5.	Stakeholder Engagement and Business Plans			
L	The authority has engaged where appropriate with key stakeholders in developing its long-term financial strategy, medium-term financial plan and annual budget	<p>The Council undertakes an annual public consultation on the budget proposals.</p> <p>Engagement on the Oxfordshire Fair Deal Alliance's priorities took place in autumn 2021 with consultation on detailed budget proposals running from early December 2021 to January 2022.</p> <p>The Performance & Corporate Services Overview & Scrutiny Committee considers and comments upon the budget proposals ahead of the budget being agreed by Council.</p>	Engagement & Consultation feedback will be used to inform the development of the council's strategic plan.	GREEN
M	The authority uses an appropriate documented options appraisal methodology to demonstrate the value for money of its decisions	<p>A business case is required for all capital schemes which sets out alternative options, the reasons for discounting them and benefits of progressing with the scheme.</p> <p>All tenders consider VfM by considering the quality of service and not just price – the appraisal process is documented.</p>	Planned improvements to capital governance processes will strengthen capacity for scrutiny of business cases and plans for capital schemes.	GREEN

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Ref	CIPFA Financial Management Standards	Current Status	Further Work	RAG Status
6. Monitoring Financial Performance				
N	The Leadership Team takes action using reports enabling it to identify and correct emerging risks to its budget strategy and financial sustainability	The monthly Business Management and Monitoring Report to Cabinet enables the council's leadership team and Cabinet to respond to emerging risks and to take action to manage those.	As part of planned improvements to capital governance and reporting, the quarterly Capital Programme monitoring report requires enhancement to better reflect performance and the delivery of outcomes linked to the completion of capital schemes.	GREEN
O	The Leadership Team monitors the elements of its balance sheet that pose a significant risk to financial sustainability	The monthly Business Management and Monitoring Report to Cabinet includes monitoring of key balance sheet items including balances, reserves, debtors, and cash (including the performance of Treasury Management).	Increase visibility of relevant balance sheet items for directorate leadership teams as part of process to sign off the Business Management & Monitoring Report.	GREEN
7. External Financial Reporting				
P	The CFO has personal and statutory responsibility for ensuring that the statement of accounts produced by the local authority complies with the reporting requirements of the "Code of Practice on Local Authority Accounting in the United Kingdom" (The Code)	The annual accounts are produced in compliance with The Code and have received an unqualified audit opinion. Statutory deadlines for publication of the accounts are consistently met. The audit of the 2020/21 accounts is on-going as at December 2021 following a requirement to restate fixed asset valuations.		GREEN
Q	The presentation of the final outturn figures and variations from budget allows the leadership team to make strategic financial decisions	The council's leadership team and Cabinet consider outturn report and year end variances in a timely manner enabling strategic financial decisions to be made as necessary.		GREEN